Journal of Mathematics Instruction, Social Research and Opinion
Vol. 3, No. 2, July 2024, pp. 239 – 250, https://doi.org/10.58421/misro.v3i2.251
ISSN 2962-7842

Capital Structure and Financial Performance of Manufacturing Companies in Nepal

Pitambar Lamichhane[1], Bashu Dev Dhungel[2]
[1]Associate Professor, Shanker Dev Campus, Tribhuvan University, Nepal
[2]Associate Professor, Ratna Rajyalaxmi Campus, Tribhuvan University, Nepal

Article Info

Article history:

Received 2024-05-25
Revised 2024-07-19
Accepted 2024-07-23

Keywords:

Debt to assets
Debt to capital
Debt to equity
Net profit margin
Return on Capital

ABSTRACT

In the present competitive globalized business environment, capital structure is a debatable issue in finance, and how firms mix debt and equity to minimize the cost of capital to accelerate firms' financial performance. Financial performance is influenced by various factors, and capital structure is one of the key factors. Therefore, this study intends to investigate how capital structure (CS) influences financial performance measured by the return on capital (ROC) and net profit margin (NPM) of manufacturing companies in Nepal. This paper employs descriptive and causal research designs to examine the impact of CS on financial performance in Nepalese manufacturing companies. The correlation result explores the positive relation of financial performance with debt to common equity. An inverse association is observed with debt to assets, long-term debt to equity, and long-term debt to capital ratios. The regression result reveals that more debt to equity-capital plays a significant positive role in enhancing financial performance measures such as return on capital employed and net profit margin. Regression results conclude that higher utilization of debt to assets, long-term debt-equity, and long-term debts to capital adversely affect financial performance. Therefore, Nepalese manufacturing companies should manage and control the utilization of their long-term debt to maintain optimal capital structure, which enhances maximizing their financial performance. The implication of this paper is for policymakers, executives, regulatory bodies, and academics to make decisions about capital structure and financial performance in Nepal.

Corresponding Author:

Bashu Dev Dhungel
Ratna Rajyalaxmi Campus, Tribhuvan University, Nepal
Email: bashu.1dhungel@gmail.com

1. INTRODUCTION

Capital Structure (CS) is a mix of long-term sources of financing for the corporation. The CS decision is one of the crucial domains in corporate finance and draws more attention in the finance literature. Saad [1] stated capital structure is the

financial framework of a firm's debt and equity. In other words, CS is a combination of equity, debt, and hybrid securities a company uses to manage its assets. Thus, CS is a mix of debts, preferred stock, and equity a company uses. A sound CS is a debatable and critical decision for any business that ultimately increases the profitability and value of the company. The company can use various available sources of financing to raise capital and fulfill its financing requirements. The firm can raise its capital by issuing common equity or debt or preferred stock or composition of them, increasing its efficiency, profitability, and market value. Thus, the optimal CS (capital structure) decision is essential to make sound financing decisions about how a firm finances from various sources to minimize its overall cost of capital for the smooth operation of business activities by efficiently utilizing various resources for shareholders' wealth maximization.

Modigliani and Miller (MM) introduced contemporary capital structure theory in 1958. Modigliani and Miller [2] revealed capital structure irrelevant theory and argued that a firm's value is irrelevance with capital structure when asset earnings and future investment opportunities remain constant. MM theory assumes a lack of taxes, bankruptcy expenses (costs), and asymmetric information. The market should be more efficient and perfect, and a company's value should not be affected by financing decisions, whether the company's capital is from equity debt or a combination of them. Financial leverage does not affect the size of operating income and business risks, and the interest cost of debt does not affect the company's value. MM's theory argues that any composition of debt and equity does not affect the company's total value. Division of CS into equity and debt is unimportant, and it does not matter. Capital structure changes do not affect a firm's values. If two firms are identical, then the total values of the two firms must be the same. If not, arbitrage will occur, driving equal values of the two firms.

Modigliani and Miller [3] revised theory of capital structure based on earlier pre-position with the incorporation of tax benefits. In this proposition, MM argued that interest on debt tax-exempted expense means the firm can make tax shield benefits using more debt, accelerating firm value. The firm's cost of funds (capital) decreases due to corporate taxes with more use of debt in its capital structure. The value of a levered company equals the combined value of an unlevered company and the tax shield. MM argued there are no bankruptcy costs. However, in practice, the larger the use of debt, the higher the bankruptcy costs, which affect the firm's value, resulting in difficulties in meeting obligations of interest and principal payments in time. Finally, it may lead to the liquidation of the firm. Thus, the value of the levered firm should be determined by incorporating both tax shield and bankruptcy costs.

The MM theory is broadly accepted in modern theories of CS, and most researchers still use the MM hypothesis in empirical analysis of CS. The trade-off theory of CS suggests that the best capital structure balances tax advantages (tax shield) and the value of bankruptcy costs in the use of debt financing [4], [5]. This theory argues that optimal CS is formulated with the interaction of competitive forces and intends to maximize tax advantages by more effectively applying debt financing. Bankruptcy expenses (costs) create pressure on financing decisions.

Jensen and Meckling [6] developed agency costs (AC) theory and explored the nature of agency costs arising from both debt and equity in a firm. The study scrutinized the conflicting interests between owners and managers and between owners and creditors, significantly influencing the firm's financial structure. Thus, these factors must be carefully considered when determining the optimum capital structure decision. The pecking order (PO) theory is another hypothesis of capital structure developed by Myers and Majluf [7]. PO theory states that a company does not necessarily require a specific target debt ratio. The company prefers to use more retained earnings (internal equity) as prime financing sources. If there are insufficient retained earnings, the firm raises funds from debt (less risky sources); if both retained earnings and debt capital are inadequate, the firm finally raises funds from external equity financing (highly risky source). In these theoretical debates, an issue may arise in determining new funding from debt or equity financing to maintain the optimal CS (capital structure).

The trade-off (TO) theory of CS argues the optimal CS of a company is formulated based on market imperfections (taxes, agency costs, financial distress costs, etc.). Taxes, bankruptcy, and AC (agency costs) influence financial leverage. This theory argues that optimal CS is the best debt-equity mix, formulated with the trading-off of debt benefits against its costs [8]. In other words, the optimum capital structure can be formulated by considering corporation tax, bankrupt costs, and agency costs.

The information asymmetry hypothesis of CS assumes managers may have information about the firm’s characteristics, such as investment opportunities and return streams, but may not have information on common investors. In real life, some financing behaviors are inconsistent with the TO (trade-off) theory of CS (capital structure). Myers and Majluf [7] and Myers [9] observed internal and external funds are used hierarchically. Myers [9] Developed the pecking order hypothesis and argued firms prioritize internal financing over external equity financing. At first, retained earnings (internal funds) should be used; when internal funds are depleted, debt financing is used; if the issue of more debt is not possible, the company can issue shares to use external equity capital. More profitable companies should use small debt and more internal equity capital because more profitable companies can use more internal equity funds (retained earnings). Pinegar and Wilbrich [10] argued managers prefer a financing hierarchy to maintain the target debt-equity ratio. Other researchers supported the pecking order hypothesis and supported the existence of the significance of information asymmetric [11], [12], [13], [14], [15].

Previous empirical studies on capital structure have been administered to analyze the relationship between CS and financial performance. Several theoretical and empirical literature studies have shown the theoretical controversy on CS and financial performance. Most of the research on CS is based on data from developed countries. Myers and Majluf [7] stated companies prefer to finance from retained earnings (internal equity) and use debt only when internal equity is insufficient. Thus, it is expected that there is a contrary relationship between CS and financial performance. Jensen [16] and Williamson [17] revealed that capital structure and corporate performance are positively

related. Rajan and Zingales [12] used data from the G-7 countries and observed the inverse effect of financial leverage or CS on the firm's economic performance.

In investigating the relationship of culture and CS with financial performance, Gleason et al. [18] analyzed the inter-relationship of culture, CS, and performance by obtaining data from retailers in European countries. The result reveals CS differs as the different cultures of retailers strengthen with the inclusion of control variables that influence the CS of the firms. In addition, the result concludes the performance of retailers is not affected by cultural influence and CS.

Booth et al. [13] administered research work using data from developing economies and revealed a positive association between a corporation's earnings (performance) and CS. Pandey [14] used data from Malaysia and observed a negative relationship between CS and a firm's financial performance (profitability), which supports the pecking order hypothesis. Bevan et al. [19] used data from the UK and observed a significant negative relation between capital structure and a firm's financial performance or profitability.

An analysis of the effect of CS on the profitability of listed companies in Ghana revealed short-term debt to assets is significantly positively related to ROE [20]. The study's findings indicate that firms with higher earnings levels can use relatively more short-term debt financing in their business, which means short-term debt would be the best alternative financing source. Further, the findings show an adverse influence of long-term debt to assets on financial performance in terms of ROE. Finally, the result shows debt to assets has a positive association with ROE, which implies a direct relation between total debt and financial performance in business firms.

Coleman [21] investigated the influencing role of capital structure in the financial performance of microfinance and revealed a positive association of CS with a firm's performance, which indicates the positive influencing power of debt (financial leverage) in explaining a firm's financial performance. CS plays a significant negative role in determining a firm's financial performance (both in accounting and market measures) [22].

In an analysis of the influence of CS (capital structure) and operational risk on financial profitability, Chen et al. [23] researched using factor and path analysis was administered, and it revealed that a firm's CS does not influence its value. Still, a relationship exists between operational risk and CS and firm profitability. CS has an inverse association with profitability, which indicates that the use of more equity (less use of reserve-to-liability) ratio results in a higher financial performance (profitability) level of the firm. This finding concludes CS is inversely associated with operational risk and has a similar association of operational risk with a firm's financial performance.

Azeez et al. [24] analyzed the impact of CS's choice of equity or debt on US firms' financial performance using inferential techniques (multiple regression models) to investigate the role of CS in determining the level of corporate financial performance and revealed mixed results. The study shows that a higher level of gearing of leverage has a significant negative influence on financial performance in terms of ROE (return on assets). In the study of the impact of CS on listed companies' financial performance in

Roman, Vatavu [25] applied a cross-section regression technique and observed that companies can accelerate their financial performance when they can use higher level equity only and debt is avoided. The result of the study shows a preference for the use of debt. Firms use equity capital only when facing more business risk and having financial difficulties using more debt capital. The study concludes that debt (financial leverage) has a significant negative role in explaining corporate financial performance.

Pradhan and Pokharel [26] examined factors determining a bank's performance using pooled cross-sectional data and revealed that the capital structure and size of the firm negatively influence ROA. In contrast, credit risk has a positive impact on ROA. Capital structure (debt to assets, short-term debt to assets, long-term debt to assets) has an inverse effect on EPS, showing that an increase in debt decreases EPS. Furthermore, the result confirms short-term and long-term financial leverages are negatively related to banks' net interest margin (NIM). Finally, the result concludes that bank size and credit risk are key factors determining financial performance, and using more leverage negatively influences financial performance in Nepalese commercial banks.

In the examination of the effect of CS on financial performance, Nasimi [27] examined the relationship of CS with financial performance and reported the negative influence of debt-equity on ROA (return on assets) and a significant positive impact on ROE (return on equity). Moreover, the result of the study confirms a significant positive influence of interest coverage on financial performance in terms of ROCI, ROE, and ROA. The study's insights conclude optimum CS needs to be formulated and maintained to accelerate the company's financial performance. Semuel and Widjojo [28] analyzed the relation of a firm's CS with its financial performance and revealed a significant positive role of CS in explaining the financial performance of firms.

In an examination of CS and the performance of the companies, Kalyani and Mathur [29] used data from seven Indian firms. Correlation and regression results show the significant role of sales, operating leverage, and asset growth in explaining the financial performance of companies. Basit and Irwan [30] investigated the effect of CS on the economic performance of Malaysian companies using descriptive and regression analysis and revealed several insights. Firstly, the result shows the inverse relationship between debt-equity on both ROA and ROE. Secondly, the debt ratio observes a weak effect on ROA but a significant positive influence on ROE. Furthermore, the result demonstrates that debt-to-equity adversely affects EPS. In the investigation of CS and its influences on the financial performance of companies in the pharmaceutical sector, Ghayas and Akhter [31] observed debt to assets positively impacts financial performance, and long-term debt to assets has an inverse nexus with ROE measures as economic performance.

Jaishi and Poudel [32] investigated the relationship of a firm's CS with financial performance based on annual data of listed non-financial companies for the study period 2005- 2018. They observed that most efficient firms use less and less financial leverage. This study concludes that companies using higher leverage are less efficient. Bhattarai [33] reported a significant effect of CS on insurance companies' FP (financial performance) in Nepal. Companies with more debt in their capital structure can have

better financial performance [34]. In the analysis of the impact of CS on financial performance, Ali and Faisal [35] revealed that using more debt in CS reduces the cost of capital and contributes to financial performance growth. Firms' Capital structure significantly influences their financial performance in the Nepalese context [36].

Olaoye and Adesina [37] investigated how the capital structure of manufacturing companies influenced their financial performance and revealed an insignificant inverse effect of debt to equity on ROA, a significant positive influence on ROE, and no impact on net profit margin. Therefore, companies should focus on determining the optimal capital mix (structure) for enhanced financial performance in manufacturing firms.

In examining CS's effect on firms' financial performance, Anozie et al. [38] applied the ex-post facto method to analyze secondary data for the period 2011-2020 and revealed long-term debt has a significant role in ROA and short-term debt to assets as well. Debt-equity both have a positive but insignificant influence on financial performance. The result suggests reducing companies' long-term debt to maximize their financial performance. Bashyal and Bhandari [39] investigated the impact of CS (capital mix) on financial performance by applying pooled OLS, REM (random effect models), and FEM (fixed effect models) with the application of both descriptive and causality designs and reported debt ratio has significant negative and equity to assets has substantial positive impact on firms' financial performance. Still, the size of firms has a positive but insignificant influence on firms' financial performance.

Previous empirical studies investigating the relationship between CS and financial performance show inconclusive results. The Nepalese capital market is still in the premature development stage, and many firms are not listed in NEPSE. In this prospect, it is important to explore the influencing power of CS in explaining firms, financial performance. Therefore, the present study examines the impact of firms' capital structure on economic performance in Nepalese manufacturing companies.

Research Objectives: This study intends to investigate how CS affects the financial performance of manufacturing companies in Nepal. The following sections are outlined: Section two discusses the research methodology. Section three presents the analysis of results and subsequent discussion. Finally, section four concludes the results and the study's implications.

2. METHOD

This research employs both descriptive and causal-comparative research designs. The descriptive analysis explores the relationship between CS and financial performance in Nepalese manufacturing companies. In addition, the causal-comparative research design is implemented to assess how different aspects of capital structure (such as long-term debt to total capital, debt to total asset, debt to common equity, and long-term debt to common equity) influence the financial performance (net profit margin and return on capital) in Nepalese manufacturing companies.

This paper has used secondary panel data from annual reports published by SEBON (Security Board of Nepal) and sample companies' financial statements covering 15 years of data for 2008-2022. All the manufacturing and processing companies listed in NEPSE

till mid-July 2022 are regarded as the population of this research. The total number of listed companies till mid-July was 234; 19 companies are listed and working as manufacturing and processing companies, and 15 listed manufacturing and processing companies are used as the sample of this research. In this study, a total of 195 observations have been used to investigate the relationship and to examine the impact of CS on the financial performance (FP) of manufacturing companies in Nepal.

This study applies Pearson's correlation analysis to explore the relationship between CS and FP. Furthermore, it utilizes pooled ordinary least square regression models to investigate how CS affects the FP of manufacturing companies in Nepal. The data collected is processed and analyzed using SPSS software (version 20) and MS Excel. This paper employs regression analysis along with t-statistics, F-statistics, and Adjusted R2 to scrutinize the impact of CS on the financial performance of manufacturing companies in Nepal.

This paper uses return on capital (ROC) and net profit margin (NPM) to measure financial performance; both are independent variables. ROC is net income to the total capital of firms. NPM is the net income to sales ratio of sample manufacturing companies. The ROC is the percentage of net income on total capital employed. Theoretical and empirical literature confirms several factors that influence firms' financial performance. This study employs debt to assets (DA), debt to common equity (DCE), long-term debt to common equity (LDCE), and long-term debt to capital (LDC) as predictor (explanatory or independent) variables.

This paper uses regression models to examine the impact of explanatory variables and how they influence financial performance in the manufacturing sector of Nepal, which are stated as follows:

Financial performance (FP) $= \beta_0 + \beta_1 DA + \beta_2 DCE + \beta_3 LDCE + \beta_4 LDC + \varepsilon_t$ … (1)

Return on capital (ROC) $= \beta_0 + \beta_1 DA + \beta_2 DCE + \beta_3 LDCE + \beta_4 LDC + \varepsilon_t$ … (2)

Net profit margin (NPM) $= \beta_0 + \beta_1 DA + \beta_2 DCE + \beta_3 LDCE + \beta_4 LDC + \varepsilon_t$ … (3)

ROC indicates the return on capital, NPM represents net profit margin, DA stands for debt to total assets, DCE is debt to common equity, LDCE indicates long-term debt to common equity, LDC stands for long-term debt to total capital, β_0 represents the coefficient of the constant term, $\beta 1$, β_2, β_3, β_4 are regression coefficients of explanatory (predictor) variables, and ε_t indicates error terms.

3. RESULTS AND DISCUSSION

This section analyses the associations between capital structure and its factors affecting corporate performance. This study uses correlation analysis to investigate the relationship between variables. Regression analysis based on a causality research design is used to examine the impact of CS on the financial performance of manufacturing companies in Nepal.

3.1. Analysis of the Relationship of Variables

This study used various capital structures (DA, DCE, LDCE, & LDC) to analyze their relationship with the FP of manufacturing companies in Nepal. Table 1 exhibits

Pearson's correlation coefficients of variables that measure the relationship between CS and the financial performance of manufacturing companies in Nepal.

Table 1. Correlation Coefficients

Variables	ROC	NPM	DA	DCE	LDCE	LDC
ROC	1	0.680**	-0.513**	0.237*	-0.482**	-0.513**
NPM	0.680**	1	-0.465**	0.342*	-0.251*	-0.319*
DA	-0.513**	-0.465**	1	-0.217	-0.251	0.382*
DCE	0.237*	0.342*	-0.217	1	0.679**	0.274
LDCE	-0.482**	-0.251*	-0.251	0.679**	1	0.348*
LDC	-0.513**	-0.319*	0.382*	0.274	0.348*	1

Note. Correlation coefficient estimation based on data obtained from SEBON (2008-2022).'*' indicates significance at 5%, and '**' indicates significance at 1%.

Table 1 demonstrates Pearson's correlation coefficient of pairs of financial performance and explanatory variables. Correlation results indicate that ROC and NPM are positively related to debt to common equity (DCE) and statistically significant at a 5 percent level. Both ROC and NPM are negatively associated with DA, LDCE, and LDC. The correlation coefficient results are substantial, and using various debts in CS reduces financial performance in Nepalese manufacturing firms.

3.2. Analysis of the Impact of Capital Structure on Financial Performance

This research employs regression models to examine the impact of explanatory variables on financial performance (FP). Table 2 exhibits regression results as pre-specified equations to explain the influence of capital structure on FP measured by the return on capital of manufacturing companies in Nepal.

Table 2. Regression Results Return on Capital with Explanatory Variables.

Variables	Coefficients (β)	Std. Errors	t-statistics	P-value
DA	-0.153	0.039	-3.953	0.002
DCE	0.118	0.043	2.715	0.005
LDCE	-0.132	0.036	-3.716	0.000
LDC	-0.349	0.127	-2.754	0.003
Constant	-0.121	0.057	-2.135	0.039
Adjusted R^2	0.437			
F-statistics	14.463			
P-value	0.001			

Note: Calculation based on data obtained from SEBON (2008-2022). Return on capital is a dependent variable; DA, DCE, LDCE, and LDC are explanatory variables. P-values<0.01 and P-values<0.05 indicate that regression results are significant at 1% and 5%, respectively. Regression coefficients, standard errors, t-statistics, F-statistics, and Adjusted R2 were also reported.

Table 2 presents regression results. The regression coefficient shows the statistically significant positive impact of DCE on ROC at 1%, which indicates the usage of more debt in capital structure that intends to increase financial performance in Nepalese manufacturing companies. In addition, regression coefficients show that DA, LDCE, and LDC hurt ROC. Results are statistically significant and are consistent with the output (findings) of Rajan and Zingales [12], Booth et al. [13], and Chen [15], which implies that DA, LDCE, and LDC have strong explanatory power of financial performance in Nepalese manufacturing firms.

Therefore, Nepalese manufacturing companies must reduce DA, LDCE, and LDC to maximize economic performance. On the contrary, the result of this paper is inconsistent with the prior findings of Coleman [21], who observed a direct (positive) relationship between CS and the financial performance of the companies.

Adjusted R^2 stands for coefficient of determinants of multiple regression models, which is 0.437. This implies predicting the capacity of explanatory variables used in models is 43.7 percent to explain financial performance as return on capital employed in manufacturing firms. The f-statistic of regression models is 14.463, significant at a 1% level (P-value < 0.01). This implies regression models applied in the estimation of return on capital employed as financial performance with selected explanatory variables have the fitness of tests of the overall models of this study.

Table 3. Regression Results Net Profit Margin with Explanatory Variables.

Variables	Coefficients (β)	Std. Errors	t-statistics	P-value
DA	*-0.535*	0.124	*-4.325*	0.000
DCE	*0.124*	0.039	*3.194*	0.003
LDCE	*-0.307*	0.074	*-4.132*	0.001
LDC	*-0.195*	0.071	*-2.745*	0.037
Constant	*0.186*	0.066	*2.831*	0.029
Adjusted R^2	*0.397*			
F-statistics	*12.964*			
P-value	0.000			

Note: Regression coefficient estimation based on data obtained from SEBON (2008-2022). Net profit margin is a dependent variable, and DA, DCE, LDCE, and LDC are explanatory variables. P-values <0.01 and P-values <0.05 indicate that regression results are significant at 1% and 5%, respectively. The regression coefficients, standard errors, t-statistics, F-statistics, and Adjusted R2 are also reported.

Table 3 of this paper presents estimated regression results on financial performance measured by net profit margin (NPM). The regression coefficient shows the statistically significant positive effect of DCE on NPM at 1%, which indicates more debt use in the firm's CS (capital structure) intends to increase the financial performance of Nepalese manufacturing companies. In addition, regression coefficients show that DA, LDCE, and LDC negatively impact NPM and are statistically significant. These results are consistent with the outcomes of Rajan and Zingales [12] and Booth et al. [13], which implies that DA, LDCE, and LDC have a powerful explaining capacity of financial performance as NPM in Nepalese manufacturing companies. Therefore, Nepalese manufacturing companies must reduce DA, LDCE, and LDC to accelerate financial performance. The research findings contradict the prior result of Coleman [21], who revealed a direct association between CS financial performances of manufacturing companies in Nepal.

Adjusted R^2 stands for coefficient of determinants of multiple regression models, which is 0.397. This implies that the predicting capacity of explanatory variables used in regression models is 39.7 percent to explain financial performance as net profit margin in Nepalese manufacturing companies. F-statistic of the regression models is 12.964, which is significant at 1% (P-value < 0.01). This result implies that the regression models applied in the estimation of net profit margin as financial performance with the various selected explanatory variables have the fitness of tests of the overall models.

4. CONCLUSION AND IMPLICATION

In today's competitive globalized business landscape, the configuration of a company's capital structure remains a subject of contention in finance, as well as how firms mix debt and equity to minimize the overall cost of capital to accelerate financial outcomes. This paper sheds light on the crucial role of CS in shaping the financial performance of manufacturing companies in Nepal. This study explores the inverse relationship between firms' capital structures and financial performance. The findings conclude that more use of total debt to equity positively impacts financial performance, which indicates its role in accelerating return on capital and net profit margin of manufacturing companies; however, the excessive use of debt to assets, long-term debt to equity and long-term debt to capital have unfavorably affected the financial performance of manufacturing companies. Therefore, Nepalese manufacturing companies are advised to control their long-term debt, intending for an optimal capital structure to optimize their financial performance.

Capital structure decisions have a significant role in accelerating the financial performance of companies. Therefore, policymakers, executives, regulatory bodies, and academics have insights into this study. Policymakers should focus on formulating optimal capital structures to improve financial performance in Nepalese manufacturing companies. In this paper, ROC and NPM are considered as FP. Thus, future studies are recommended to use ROA, ROE, EPS, etc., to measure financial performance with the incorporation of other explanatory variables such as size, tangibility, liquidity, operational efficiency, GDP, inflation, etc., applying fixed and random effect models, which are the limitations of this paper.

REFERENCES

[1] N. M. Saad, "Corporate Governance Compliance and The Effects to Capital Structure in Malaysia," *Int J Econ Finance*, vol. 2, no. 1, Jan. 2010, doi: 10.5539/ijef.v2n1p105.

[2] F. Modigliani and M. H. Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment," *Am Econ Rev*, vol. 48, no. 3, pp. 261–297, 1958, [Online]. Available: http://www.jstor.org/stable/1809766

[3] F. Modigliani and M. H. Miller, "Corporate Income Taxes and the Cost of Capital: A Correction," *Am Econ Rev*, vol. 53, no. 3, pp. 433–443, 1963, [Online]. Available: http://www.jstor.org/stable/1809167

[4] E. H. Kim, "A Mean-Variance Theory of Optimal Capital Structure and Corporate Debt Capacity," *J Finance*, vol. 33, no. 1, pp. 45–63, 1978, doi: 10.2307/2326349.

[5] A. Kraus and R. H. Litzenberger, "A State-Preference Model of Optimal Financial Leverage," *J Finance*, vol. 28, no. 4, pp. 911–922, 1973, doi: 10.2307/2978343.

[6] M. C. Jensen and W. H. Meckling, "Theory of the firm: Managerial behavior, agency costs and ownership structure," *J financ econ*, vol. 3, no. 4, pp. 305–360, Oct. 1976, doi: 10.1016/0304-405X(76)90026-X.

[7] S. C. Myers and N. S. Majluf, "Corporate financing and investment decisions when firms have information that investors do not have," *J financ econ*, vol. 13, no. 2, pp. 187–221, Jun. 1984, doi: 10.1016/0304-405X(84)90023-0.

[8] J. H. Scott, "A Theory of Optimal Capital Structure," *The Bell Journal of Economics*, vol. 7, no. 1, pp. 33–54, 1976, doi: 10.2307/3003189.

[9] S. C. MYERS, "The Capital Structure Puzzle," *J Finance*, vol. 39, no. 3, pp. 574–592, Jul. 1984, doi: 10.1111/j.1540-6261.1984.tb03646.x.

[10] J. M. Pinegar and L. Wilbricht, "What Managers Think of Capital Structure Theory: A Survey," *Financ Manage*, vol. 18, no. 4, pp. 82–91, 1989, doi: 10.2307/3665800.

[11] J. J. Chen, "Determinants of capital structure of Chinese-listed companies," *J Bus Res*, vol. 57, no. 12, pp. 1341–1351, Dec. 2004, doi: 10.1016/S0148-2963(03)00070-5.
[12] I. M. M. Pandey, "Capital Structure and the Firm Characterstics: Evidence from an Emerging Market," *SSRN Electronic Journal*, 2002, doi: 10.2139/ssrn.300221.
[13] L. Booth, V. Aivazian, A. Demirguc-Kunt, and V. Maksimovic, "Capital Structures in Developing Countries," *J Finance*, vol. 56, no. 1, pp. 87–130, 2001, [Online]. Available: http://www.jstor.org/stable/222464
[14] R. G. RAJAN and L. ZINGALES, "What Do We Know about Capital Structure? Some Evidence from International Data," *J Finance*, vol. 50, no. 5, pp. 1421–1460, Dec. 1995, doi: 10.1111/j.1540-6261.1995.tb05184.x.
[15] S. Titman and R. Wessels, "The Determinants of Capital Structure Choice," *J Finance*, vol. 43, no. 1, pp. 1–19, 1988, doi: 10.2307/2328319.
[16] M. C. Jensen, "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers," *Am Econ Rev*, vol. 76, no. 2, pp. 323–329, 1986, [Online]. Available: http://www.jstor.org/stable/1818789
[17] O. E. Williamson, "Corporate Finance and Corporate Governance," *J Finance*, vol. 43, no. 3, pp. 567–591, 1988, doi: 10.2307/2328184.
[18] K. C. Gleason, L. K. Mathur, and I. Mathur, "The Interrelationship between Culture, Capital Structure, and Performance," *J Bus Res*, vol. 50, no. 2, pp. 185–191, Nov. 2000, doi: 10.1016/S0148-2963(99)00031-4.
[19] A. A. Bevan and J. Danbolt, "Capital Structure and its Determinants in the UK - A Decompositional Analysis," *SSRN Electronic Journal*, 2000, doi: 10.2139/ssrn.233550.
[20] J. Abor, "The effect of capital structure on profitability: an empirical analysis of listed firms in Ghana," *The Journal of Risk Finance*, vol. 6, no. 5, pp. 438–445, Dec. 2005, doi: 10.1108/15265940510633505.
[21] A. Kyereboah-Coleman, "The impact of capital structure on the performance of microfinance institutions," *The Journal of Risk Finance*, vol. 8, no. 1, pp. 56–71, Jan. 2007, doi: 10.1108/15265940710721082.
[22] R. Zeitun and G. G. Tian, "Capital Structure and Corporate Performance: Evidence from Jordan," *The Australasian Accounting Business & Finance Journal*, vol. 1, no. 4, pp. 40–41, 2007.
[23] J. Chen, M. Chen, W. Liao, and T. Chen, "Influence of capital structure and operational risk on profitability of life insurance industry in Taiwan," *Journal of Modelling in Management*, vol. 4, no. 1, pp. 7–18, Mar. 2009, doi: 10.1108/17465660910943720.
[24] T. A. Olaniyi, M. O. Elelu, and T. S. Abdulsalam, "Impact of Capital Structure on Corporate Performance: A Pre and Post Crisis Evaluation of Selected Companies in US," *International Journal of Approximate Reasoning*, vol. 2, pp. 1–20, 2015, [Online]. Available: https://api.semanticscholar.org/CorpusID:59069091
[25] S. Vătavu, "The Impact of Capital Structure on Financial Performance in Romanian Listed Companies," *Procedia Economics and Finance*, vol. 32, pp. 1314–1322, 2015, doi: 10.1016/S2212-5671(15)01508-7.
[26] R. S. Pradhan and K. Pokharel, "Capital Structure and Corporate Performance: A Case of Nepal," *SSRN Electronic Journal*, 2016, doi: 10.2139/ssrn.2793498.
[27] R. N. Nasimi, "Determinants of Capital Structure (An Empirical Evidence, US)," *Global Journal of Management and Business Research*, vol. 16, 2016, [Online]. Available: https://api.semanticscholar.org/CorpusID:157813530
[28] H. Semuel and Widjojo, "The effect of capital structure on profitability of property and construction companies in Indonesia," *Journal of Business Management*, vol. 2, no. 5, pp. 12–20, 2016.
[29] S. Kalyani and N. Mathur, "Impact of capital structure on profitability: With reference to select companies from oil and natural gas industry of India," *Inspira- Journal of Modern Management & Entrepreneurship*, vol. 7, no. 3, pp. 129–137, 2017.
[30] M. Basit and S. Irwan, "The impact of capital structure on corporate performance of a listed industrial products company in Malaysia," *East African Journal of Business and Economics*, vol. 4, no. 1, pp. 1–13, 2018.
[31] A. Ghayas and J. Akhter, "The relationship between capital structure and profitability: Empirical evidence from listed Indian banks," Jan. 2018.
[32] B. Jaishi and R. Poudel, "Capital Structure and Firm Efficiency of Non Financial Institutions in Nepal," *Journal of Nepalese Business Studies*, vol. 12, pp. 19–32, Dec. 2019, doi: 10.3126/jnbs.v12i1.28180.
[33] B. Bhattarai, "Effects of Capital Structure on Financial Performance of Insurance Companies in Nepal," *International Journal of Accounting and Financial Reporting*, vol. 10, p. 35, Aug. 2020, doi: 10.5296/ijafr.v10i3.17674.

[34] B. Jaishi, "Capital Structure and its Impact on Financial Performance in Insurance Companies of Nepal," *Journal of Nepalese Business Studies*, vol. 13, pp. 89–106, Dec. 2020, doi: 10.3126/jnbs.v13i1.34708.

[35] A. Ali and S. Faisal, "Capital Structure and Financial Performance: A Case of Saudi Petrochemical Industry," *The Journal of Asian Finance, Economics and Business*, vol. 7, pp. 105–112, Jul. 2020, doi: 10.13106/jafeb.2020.vol7.no7.105.

[36] S. Bhatt and S. Jain, "Capital Structure and Profitability of Commercial Banks in Nepal," *Account and Financial Management Journal*, vol. 05, May 2020, doi: 10.33826/afmj/v5i5.01.

[37] C. O. Olaoye and O. D. Adesina, "Capital Structure and Financial Performance of Manufacturing Companies in Nigeria," *Journal of Applied And Theoretical Social Sciences*, vol. 4, no. 4, pp. 471–491, Dec. 2022, doi: 10.37241/jatss.2022.78.

[38] O. R. Anozie, T. A. Muritala, V. E. Ininm, and N. S. Yisau, "Impact of capital structure on financial performance of oil and gas firms in Nigeria," *Future Business Journal*, vol. 9, no. 1, p. 11, Mar. 2023, doi: 10.1186/s43093-023-00186-4.

[39] J. Bashyal and N. Bhandari, "Effect of Capital Structure on financial Performance of insurance companies in Nepal," *International Journal of Finance and Commerce*, vol. 5, no. 2, pp. 35–42, 2023.